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Africa: Economic Prospects and Problems

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Following is an address by Chester A. Crocker, Assistant Secretary for African Affairs, before the National Business League, Dallas, Texas, September 17, 1982.

It is an honor to have this opportunity to discuss the Administration's view of the economic prospects and problems of Africa before the National Business League—the oldest national business organization and the largest association of minority business people in America. It is a pleasure to be here in Texas speaking on the subject of Africa. At first glance the two have a good deal in common. Both are vast in area. Both are frontiers. Both are endowed with great mineral and agricultural resources. Both are marked by human diversity. There are many differences as well, but one stands out. Texas, by any standard, is very, very rich. Africa, by comparison with other continents, is distressingly poor.

Today I would like to discuss with you Africa's economic plight, its implications for U.S. foreign policy, what we in government are attempting to do about it, and how this effort can involve you, as representatives of the private sector.

The African Economic Crisis

Africa, more than any other region, is gravely threatened by economic crisis. It is the only area of the world where national growth rates are often negative, with more of the same predicted for the rest of the 1980s unless there is rapid improvement. It is the only continent characterized by declining per capita food production, the consequence of the highest population growth rates in the world combined with stagnating agricultural production. Increased requirements for food imports, combined with the soaring cost of imported oil, have pushed several important countries close to bankruptcy. Normally, a situation where a nation's debt payments amount to more than one-quarter of export earnings is considered dangerous. But in two major African countries, Sudan and Zaire, debt payments due in 1983 will exceed available export earnings, leaving nothing for essential imports. Either the countries will default, which is unlikely, or their debt will be "rolled over," or rescheduled. Neither alternative is satisfactory. Even Africa's more successful economies are, in general, faced with unhealthy debt burdens and insufficient rates of growth.

I could spend the next hour explaining the causes of the African economic crisis. They include a difficult, disaster-prone environment, the afterglow of political instability in many countries, and a varying mixture of counter-productive policies and institutional weaknesses. During the 1960's, Africa was shielded from the effect of structural economic weaknesses by relatively high commodity prices combined with relatively generous flows of foreign aid. These conditions also encouraged some African countries to borrow heavily from private commercial banks.

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With the onset of world recession, however, the prices of African commodities plummeted, while the cost of most imports remained relatively high. Aid flows leveled off as the industrialized countries, including the United States, tightened budgetary belts. But the debts still had to be paid; indeed, new borrowing was often imperative.

It is now generally recognized, by Africans as well as by foreign observers, that Africa's special vulnerability to world recession was usually exacerbated by misguided economic policies. For example, pricing systems have typically been geared to keep food prices low, penalizing farmer-producers in order to benefit urban consumers whose political support is usually critical for regime survival. Overvalued currencies have in effect taxed (and discouraged) exports of all kinds, resulting in chronic balance-of-payments crises.

From colonial predecessors, new African governments often inherited networks of state-owned businesses and marketing boards. Originally designed to channel colonial products to the mother country, these so-called "parastatals" have all too often assumed a new primary function of providing employment, leaving productivity a secondary consideration. The classic example is the crop marketing board in an East African country which now pays its employees more than it budgets to purchase crops.

Foreign aid programs have accomplished much of positive and enduring value in Africa, including the elimination of several major diseases, the provision of roads and railroads to market crops and minerals, and the creation of much invaluable educational infrastructure in a continent which at the time of independence was almost totally lacking in universities and technical training facilities of all kinds. At the same time, however, aid donors, ourselves included, sometimes contributed unwittingly to the growing economic problem by subsidizing inefficient state corporations and underwriting elaborate government programs and "pilot projects" which (when the aid flows stopped) governments often could not afford to operate or maintain.

Impact on U.S. Interests

Africa's economic crisis has a multiple impact on U.S. interests, which are increasingly related to our most vital concerns. For example, I am now heavily engaged in negotiations which will, if successful, achieve a peaceful settlement in Namibia and Angola and pave the way toward reduced conflict and expanded economic growth in southern Africa. If we fail, we may witness a spiral of turmoil that could destroy a number of southern African countries and would directly benefit our Cuban and Soviet adversaries. Either way, the repercussions will be global. Africa is no longer on the policy sidelines.

By threatening the stability of some of our oldest friends and partners on the continent, the African economic crisis threatens virtually all of our broader goals, including the search for peace in southern Africa. It endangers U.S. and allied access to valuable resources, including the oil fields of West Africa and the vital strategic minerals of southern Africa. All too often, economic distress generates starvation and refugees, problems which can only be addressed through expensive emergency relief programs. While our government will respond generously to humanitarian imperatives of this kind, we certainly prefer to spend money in a manner more conducive to long-term development. The economic collapse or default of a major African country would pose an additional threat to the integrity of the international financial system, already under worrisome pressure elsewhere.

What We Are Doing

Our African economic policy is influenced by three fundamental facts.

First, U.S. aid to Africa, although substantial and increasing, is unlikely (given budgetary pressures) to experience dramatic growth. The same goes for other aid donors.

Second, as mentioned earlier, inadequate economic policies are one critical impediment to development in many African countries.

Third, the present and potential contributions of the private sector (both foreign and indigenous) to African economic growth vastly outweigh anything that foreign aid can contribute.

Helping People at Risk. The various elements of our policy flow naturally from consideration of these basic facts. Let me elaborate briefly: As a matter of highest priority, the United States continues to take the lead in helping—and mobilizing others to help—human beings imperiled by strife and starvation in Africa. The United States has been foremost in assistance to international refugee programs and in providing opportunities for third-country settlement (several thousand African refugees will come to the United States this year). The Congress has recently approved $30 million for new activities designed to provide refugee-related development opportunities, so that long-term refugees will not be forced to live perpetually on the dole. Our refugee aid to Africa totaled about $110 million in fiscal year (FY) 1982, a quadrupling of the amount expended in 1978, mainly for programs in Somalia, Sudan, and Zaire, and for persons displaced by conflict in Chad.

Supporting Better Economic Policies. Second, under more normal conditions we are using our aid to encourage the process of policy reform, which is another way of saying that we intend wherever possible to help those who have demonstrated a willingness to help themselves.

I might note that despite budgetary constraints, U.S. economic aid to Africa requested for fiscal 1983 is $840 million compared to the $737.6 million requested in 1981 (not including the refugee assistance and emergency food aid which I mentioned earlier). In addition to our bilateral programs, we are maintaining a vigorous commitment to the World Bank and the African Development Bank and Fund. We are encouraging the World Bank to devote an increasing share of its "soft loan" International Development Association funds to Africa and are now completing arrangements to join the African Development Bank, recently opened to non-African membership. Including our share of aid disbursed through these multilateral institutions, total U.S. economic assistance to Africa is well in excess of $1 billion annually. (By contrast, total military aid requested for fiscal 1983 is only one-fifth of this amount.)

Exactly how can we best deploy our aid to encourage better economic policies in Africa? This question taxes our diplomatic skills, and those of our colleagues in the Agency for International Development (AID), on a daily basis. I can assure you it is not a matter of bribing foreign governments to go against their own inclinations. Reforms must come from each government's own political will. Even in the poorest countries we have neither the vast sums of money required, nor the inclination, to "buy" changes of policy.

Our approval involves working with Africans to identify potentially successful programs and policies and then using our resources to support them. Often, as we well know from our own domestic experience, the initial phases of an economic reform measure involve expense and dislocation. Properly deployed, our aid can ease such burdens for those governments courageous and enlightened enough to assume them.

Encouraging policy reform also means working closely both with other donors and with the World Bank and International Monetary Fund. Because of their great resources, expertise, and impartiality as international institutions, these multilateral organizations often take the lead in proposing and supporting economic reforms. That is why their continued health is vital to our own efforts.

Supporting the Private Sector. Having told you that the private sector figures heavily in our policy, it is important that you understand what we mean by that term in the African context. Our definition is broad; it includes everything that is not government owned, and it most emphatically covers African as well as foreign enterprise.

Africa's private sector is overwhelmingly a realm of small operators—farmers, fishermen, artisans, cooperatives. The archetype is that dynamo of small-scale capitalism, the woman market entrepreneur who dominates much indigenous retailing, the so-called "informal sector," in West Africa. All too often such small producers and merchants have been ignored or discouraged by proliferating and sometimes predatory bureaucracies, and there is little doubt that on a per capita basis, Africa has more bureaucracy than any other continent. More than any other factor, government-run marketing schemes combined with government-set prices have denied the farmer a fair return for his produce, and that, in a nutshell, is why Africa today spends even more on imported food than on imported oil.

For many reasons foreign or multinational enterprise is a less significant element in Africa than such small-scale local capitalism. In many countries markets are too small, skills and infrastructure too scarce, to attract and sustain big business. Nevertheless, American trade and investment is already by far the most significant element in our economic presence in Africa, and it has great potential for further growth.

I should dwell on that word growth for a moment. It is in large part because we recognize the overwhelming importance of helping Africa achieve higher economic growth rates that we want to encourage the private sector. For it is only through the private sector, whether large or small, indigenous or foreign, that significant growth will occur. If African experience over the last decade proves anything, it is the folly of assuming that one can achieve popular welfare goals via purely government actions while neglecting growth. Redistributing poverty is a dead end.

Let me now describe an imaginary African case and illustrate for you a few of the ways in which our policy can respond, partly by engaging and supporting the private sector. Our hypothetical country has just agreed to embark on a tough, economic stabilization program. Debts have been rescheduled and currency devalued in order to restore balance-of-payments equilibrium. While temporarily free from the threat of default, capital resources are perilously scarce. The government has imposed tough limits on domestic spending to keep down inflation. Although these austerity measures are essential to restore and maintain stability they involve great hardship, limiting investment both in development projects and in private enterprise. At least for the moment, business firms are starved for foreign exchange.

In this kind of situation there are a number of ways that aid donors can help. They can provide some of the capital needed for development projects. Through commodity import programs, they can ease the damaging impact of foreign exchange constraints on private firms by channeling assistance directly to the most growth-oriented sectors of the economy. In short, external assistance can help both to alleviate and to achieve the transition from austerity to growth. It can, thereby, demonstrate our awareness of the effort and sacrifice being made by a friendly government and our willingness to help.

Once economic stability is achieved and growth resumes, additional measures become relevant. We can provide a range of more traditional aid, including technical assistance and institution-building measures which will help small-scale African farmers and entrepreneurs. As opportunities for larger scale investments develop, there will be an expanding role for U.S. firms and for the various programs—including the Overseas Private Investment Corporation and the Export-Import Bank—which are available to encourage U.S. trade and investment. As they interact with their African partners, U.S. firms can provide much additional technical and managerial expertise, all of it relevant to the achievement of economic growth and welfare. It is for this reason that African leaders across the political spectrum, from market-oriented moderates to old-line Marxists, are today increasingly eager, both in public and private, for additional U.S. trade and investment.

Minority Involvement

That, painted in very broad strokes, is the new dimension of our strategy. Now I would like to turn briefly to the implications for you, as black Americans and businessmen. I don't want to gloss over the difficulties imposed by world recession and Africa's economic crisis. Although there are some very significant exceptions and bright spots, Africa is not, in general, an easy place to do business, even for the largest of multinational firms. It takes perseverance, a great deal of careful preparation and dialogue with African decisionmakers, and an underlying faith in Africa's long-term growth potential. But you do have a role to play and one which may increase sharply in the future.

To begin with, I would note that the sympathetic interest of black Americans in Africa is extremely important as a sustaining factor in our policy. It encourages Congress to provide the aid resources we need, and it sharpens awareness of Africa in the minds of senior policymakers. So even when black Americans outside government disagree with the executive branch on specific issues, as is sometimes the case, we can only welcome and encourage their interest.

And despite the present difficulties which I have described, Africa should engage your interest as businessmen. Black American firms such as Johnson Products of Chicago are already involved in Africa. President Hagans of the National Business League was among those who participated in the first Cabinet-level trade mission to Africa last January. Mayor Ferre of Miami is involved in organizing a trade fair which will introduce African entrepreneurs to minority businessmen in Florida with the aim of encouraging trade between the United States and Africa, and joint venture partnerships between Africans and Americans. Both the Commerce Department and AID maintain offices which are charged with encouraging the increased participation of minority firms in our export and foreign assistance programs. Congressional approval of the Administration-supported bill legalizing export trading companies would make it much easier for small and medium businesses of all kinds to operate in Africa by enabling smaller operators to share the often great overhead costs involved in African operations.

Among the innovations launched by this Administration is AID's new Bureau of Private Enterprise, established specifically to help increase development-oriented private sector resources

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in the less developed countries (LDCs). The bureau's program includes new methods of financing private enterprise projects, a wide range of advisory services, and funding of feasibility studies through the closely associated Trade and Development Program, which may be of particular interest to small and medium U.S. businesses.

Finally, I would underline that the impediments imposed by world recession will be lessened as our own domestic economy recovers, increasing the range of business opportunities for all Americans in Africa. U.S. recovery will help to benefit all developing countries by expanding markets for African as well as other Third World exporters. The United States currently takes about half of all the manufactured goods exported by the non-OPEC developing countries to the industrialized world. As President Reagan stated before the Cancun conference, every 1% reduction in U.S. interest rates due to lower inflation improves the balance of payments of the LDCs by $1 billion.

Conclusion

In concluding, I would like to reemphasize the extent to which both Americans and Africans will gain from accelerating African economic growth. It has become a truism that more than ever before, U.S. prosperity depends on trade with developing countries. Today we export more to them than to Europe and Japan combined. However, the developing nations in question are largely the middle-income, high-growth countries—the Brazils, Mexicos, and Singapores. Our total exports to sub-Saharan Africa, including South Africa, still amount to less than 3% of our global total and less than one-tenth of our total exports to the LDCs.

Nevertheless for a number of reasons we can be optimistic about the future. Although still relatively small, our trade with Africa has been growing at a high rate compared to other areas. Africa's future potential is undeniable given its enormous resources of minerals, energy, and unexploited arable land.

It is important to remember that several of today's more dramatic LDC success stories faced apparently insoluble economic problems only a few years ago. In 1960, to cite two examples, many American observers regarded South Korea as a hopeless case, deprived both of natural resources and necessary entrepreneurial skills by the ugly fact of partition. In India it appeared that we were pouring our aid dollars into an economic quagmire, destined for perpetual dependency on others. Only a few years ago speeches written in my own Bureau of African Affairs habitually illustrated Africa's food problems by drawing gloomy parallels with India.

Today it seems that things have changed. The Indians have virtually achieved food grain self-sufficiency and are increasingly capable of financing development needs by borrowing from private capital markets. The Koreans have achieved one of the economic miracles which inflates LDC trade statistics. Their rapid expansion into new industrial export sectors is a challenge to even the most sophisticated market economies. These cases are not unique; a number of other former recipients of massive U.S. aid have achieved or are approaching self-sustaining growth, providing in the process a better standard of living for their citizens and a healthy stimulus to world trade.

The African states are at an earlier stage of the same process, often still in the most profoundly difficult stage of post independence and far less well equipped by their colonial experience to make a smooth transition to prosperity. Yet there can be no doubt that the transition is already underway. Our challenge is to speed up the process, for, to the extent that we do so, we will be among the beneficiaries. ■

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